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SUBJECT: NIGERIA ECONOMIC UPDATE, MAY 2005

1. (U) This economic update includes:

- American Business Leaders Discuss Local AmCham
- Stock Market Affected by Banking Reform
- Shipping Dinner Reveals Hands Behind Cabotage Act
- GON Introduces Presidential IPR Initiative: STRAP
- Nigeria Census 2005, Plan for the Worst and Hope for the Best

American Business Leaders Discuss Start-Up of Local
AmCham

2. (SBU) American businesses in Nigeria decided to form an official American Chamber of Commerce (AmCham) to represent their interests in Nigeria. On May 10, Ambassador John Campbell and Dick Kramer, Head of Strategic Research and Investments, convened about 30 US business executives -- nearly all of them at the Managing Director-level -- to discuss establishing an AmCham. The group expressed unanimous support for an AmCham. The businesses, including oil companies, felt an AmCham could be a strong advocate of their interests and that, in many instances, have the AmCham, as an organization representing a wide range of business interests, weigh in on certain issues would be more effective than single businesses advocating solely on their own behalf -- it is harder to accuse an AmCham of self-interest than it is a single company.

3. (SBU) The prospective AmCham's relationship with the pre-existing Nigerian-American Chamber of Commerce (NACC) will be a sensitive issue that must be addressed. NACC has seen itself as the organizational link between American businesses and Nigeria, when in reality NACC has been more of a venue for small to medium size Nigerian businesses seeking products from America. Consequently, NACC has not been involved in advocacy for the US business community in Nigeria. In fact NACC has taken positions like endorsing GON trade bans and tariffs that are inimical to American business interests. Attendees at the May 10 meeting agreed they will have to deal with NACC sensitively in the move to develop a separate organization to represent US business interests. The Ambassador and the Foreign Commercial Service in Lagos have already laid the groundwork for that sensitive approach through recent interactions, including a keynote speech the Ambassador gave at the NACC Business Day in March. Sustained attention to the matter will be vital.

Stock Market Affected by Banking Reform

4. After a bumpy second half in 2004, Nigerian Stock Exchange (NSE) growth indices remained stable in early 2005, with the market gaining 6.6 percent in the second quarter. The primary market segment has retained buoyancy through various bank initial public offers (IPOs) as banks seek to meet a Central Bank of Nigeria (CBN) naira 25 billion (USD 192 million) capitalization requirement by December 2005.

5. (U) Banking sector changes initially caused uncertainty and lack of confidence. Market capitalization, over naira 2 trillion (USD 15 billion) in June 2004, fell nearly five percent to naira 1.898 trillion (USD 14.3 billion) in July when the recapitalization policy was announced. Though uncertainty remained, banks in many cases had no alternative but to look to the stock market to meet the recapitalization requirement. Since July 2004, more than a dozen banks have issued IPOs. Surprisingly, even to industry experts and the CBN, the NSE reports 17 companies, mostly banks, raised over naira 217.1 billion (USD 1.63 billion) from the market in the first quarter of 2005 in contrast to 32 companies raising

naira 227.4 billion (USD 1.71 billion) in 2004. This shows there may be more Nigerians with capital who are willing to invest domestically than most observers predicted.

16. (U) Today the banking sector remains active though experts say the large number of bank IPO issues have flooded the market, depressed prices, and adversely affected secondary market activities. As more IPOs arise, investors have been selling off a lot of secondary stocks to buy new issues. Also, the recent declarations of lower profits by blue chip companies like Nigerian Breweries, Nigerian Bottling Company and Guinness, have significantly cooled activities in the secondary market.

16. Comment: Investors may be becoming inured with each subsequent bank issue. Banking share prices have decreased by as much as 50 percent. Better results are expected in the medium term as investors take advantage of current low stock prices. However, local experts believe positive correction in the market will follow the banking sector December deadline. This is not certain, however, as there is no guarantee the banking sector changes will quickly result in stronger banks that perform better. End comment.

Shipping Dinner Reveals Hands Behind Cabotage Act

15. (U) During the Nigerian Chamber of Shipping (NCS) annual dinner, outgoing president Olisa Agbakoba, told the audience about the influential roles of several NCS members in the recently enacted Nigerian Cabotage Act. The Act states that shipping companies operating in Nigeria must be at least ten percent owned by Nigerians. Agbakoba said he, Aliko Dangote, and Senator Musa Adede worked closely with the drafters of the Act to ensure that Nigerian interests were promoted. He repeated in his speech several times that the Act is not meant to keep out foreign firms but to ensure Nigerians profit sufficiently as well.

16. (SBU) The dinner was officially a hand-over ceremony of the NCS presidency from Agbakoba to Nigerian diesel baron, Femi Otedola. Evoking Agbakoba's belief that Nigerians can participate in the shipping industry, Otedola has told Econoffs separately that foreign firms simply repatriate funds out of Nigeria and contribute little to the country.

17. (SBU) Comment. Nigeria does not have the capacity to meet the new cabotage requirements. Consequently, many foreign companies have received waivers to operate without a Nigerian ownership contingent. The Act's effects will grow as Nigerian shipping firms actively pursue their ten percent shares. Some industry watchers believe the Act will only lead to more Nigerian front companies to give shippers the appearance of complying with the Act. In the end, the Act reflects the GON's nationalist economic philosophy. Whether it will produce the intended benefit or backfire is another question. End comment.

GON Launches Presidential IPR Initiative: STRAP

18. (U) On May 3, the Nigerian Copyright Commission (NCC) launched a new presidentially-led Intellectual Property Rights (IPR) initiative called STRAP: Strategic Action Against Piracy. STRAP has four "core principles": 1) "combat" piracy and copyright abuse, 2) create an environment where a legitimate copyright system can work, 3) lure investors through a copyright-friendly environment, and 4) help restore a good image of Nigeria. The NCC noted three vehicles for STRAP's implementation: a) public outreach for IPR awareness, b) enforcement of the Nigerian Copyright Act including raids, destruction of pirated goods, and arrests and prosecution of offenders, and c) new administrative measures including regulation of optical disc manufacturing plants, hologram registration, a "video rental scheme", and a database of copyrighted works.

19. (SBU) Comment. Neither during the three-hour long STRAP launch nor in STRAP program materials does the NCC provide a plan to execute the core principles and three implementation components. Lack of IPR program funding is a key hurdle in Nigeria's enforcement of its copyright legislation. During the STRAP launch no mention was made of how much funding is being dedicated to the program. Unless provided more funding, this initiative will be cash-strapped and ineffective in fighting Nigeria's active pirating industry.

Nigeria Census 2005, Plan for the Worst and Hope for
the Best

11. (SBU) Nigeria's planned December 2005 national census count will be the first since 1991. Adebayo Ajagunna, Trade Development Manager at the British High Commission, predicts it will be the most accurate in Nigeria's history. Ajagunna tracks census progress in stewarding the British Department for International Development (DFID) funding for satellite imagery used in determining where communities and residences exist. In places where a head count cannot be conducted, due to remoteness or reluctance of local population to be counted, for example, satellite imagery will help estimate population.

12. (SBU) Though census preparation was set back three to four months by a lag in GON funding for the Nigerian Population Commission (NPC), Ajagunna said EU funding of USD 120 million (60 percent of total census funding) and DFID satellite imagery contributions to the project helped get the project back on track. Preparations, he said, have accelerated. Planners have made up for lost time in procuring vehicles, computers, cartography and other equipment, as well as a "good portion" of the required 800,000 personnel.

13. (SBU) Each of Nigeria's three censuses since independence have been hotly disputed because the census materials affect important regional political interests. States, localities, and geopolitical zones consider census data as key to gaining power and resources. The census is also looked at as an indicator of voting strength -- and thus political power. The census is a zero sum political game where both the South and North have adamantly claimed to have been undercounted in the past. This exercise, coming with elections on the 2007 horizon, promise to be little different. However, attempting to make this census less controversial, the NPC will not gather information on ethnicity and religion as has been done previously. EU and NPC officials will monitor census activity. This may indeed be the most accurate Nigerian census to date, but it waits to be seen if this will give credibility to the results.

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